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FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC 2585
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 1871
RUEHAR/AMEMBASSY ACCRA 1812
RUEHDS/AMEMBASSY ADDIS ABABA 1936
RUEHRL/AMEMBASSY BERLIN 0515
RUEHBY/AMEMBASSY CANBERRA 1213
RUEHDK/AMEMBASSY DAKAR 1570
RUEHKM/AMEMBASSY KAMPALA 1992
RUEHNR/AMEMBASSY NAIROBI 4423
RHEHAAA/NSC WASHDC
RHMFISS/EUCOM POLAD VAIHINGEN GE
RUEHGV/USMISSION GENEVA 1063
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
RHEFDIA/DIA WASHDC

UNCLAS SECTION 01 OF 03 HARARE 000204

SIPDIS

AF/S FOR S.HILL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN
TREASURY FOR J.RALYEA AND T.RAND
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
COMMERCE FOR BECKY ERKUL
CIA WASHDC

SIPDIS

E.O.12958: N/A
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SUBJECT: Zim Notes - March 14, 2008

¶1. The Embassy Harare Political/Economic Section began producing Zim Notes in July, 2007 to present a perspective on current events in Zimbabwe. Suggestions are always welcome. If you would like to receive Zim Notes by email, as well, please contact Frances Chisholm at chisholmfm@state.gov. Distribution is restricted to U.S. government employees.

Price Movements:
Exchange Rate and Selected products

¶2. Parallel rate for cash: ZW\$30million:US\$1; bank transfer rate: Z\$40 million; official rate: ZW\$30,000:US\$1

Sugar soared to Z\$40 million/2kg vs. controlled price of Z\$8million/2kg

Cooking oil climbed to Z\$40million/750ml vs. controlled price of Z\$9.3million/750ml

Petrol and diesel inched up to Z\$38million/liter vs. controlled price of Z\$60,000/liter

On the Political/Social Front

¶3. SADC Election Observers Arrive...The vanguard of what is expected to be a 120-member SADC observation mission arrived in Harare this week. The head of the mission, Angolan Foreign Minister Joao de Miranda, in the face of Western concerns about Zimbabwe's capacity to hold a free and fair election, expressed optimism about the elections and said Western critics were wrong. Western diplomats, invited to the SADC observer launch on March 11 at a

local hotel, were less than impressed with the beginning of the mission. On arriving for the launch, they were told de Miranda was not yet in Zimbabwe and were asked to return the following morning; de Miranda was a no show the next day, as well. An NGO representative told us she had spoken to the mission about voter registration problems, the inadequate number of polling stations, and ongoing violence and intimidation. She reported the observers appeared disinterested.

14. Election Pay Raise...President Robert Mugabe announced that on Monday he had signed a "new salary schedule of big salaries" for teachers, many of whom are on strike, and civil servants. He did not specify the increases. Mugabe is pulling out all the stops in advance of elections in an attempt to demonstrate ZANU-PF can deliver.

15. Mugabe Claims Solomon Mujuru's Support...The Herald's banner headline on Thursday was "Gen Solomon Mujuru Disowns Makoni." In the accompanying article, Mugabe said he had talked to Mujuru who had sworn his allegiance. While we believe the conversation to be true (see Harare 197), there is reason to believe that Mujuru supports Makoni and is deceiving Mugabe. See Harare 200.

16. ZESN Observers To Be Accredited...The Zimbabwe Electoral Support Network announced on March 13 that the Ministry of Justice had issued a letter of invitation for accreditation of its 11,800 observers. We understand there will be about 8,200 polling stations, so ZESN should be able to have at least one observer at each station.

Economic and Business News

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17. Business Nervous About Indigenization Bill Despite Government's Softened Message... The announcement that the Indigenization and Economic Empowerment Act had been signed by Mugabe and officially published last week sent shudders through the business community. Many observers thought the Bill had died a procedural death when it was not announced 21 working days after arriving at the President's desk on 15 November, but Mugabe appears to have held the Bill back as an election tool. The responsible minister, Paul Mangwana, tried to calm fears at a press conference where he said the 51 percent of shares would be purchased by indigenous Zimbabweans without government interference. He said the government would only set a timetable for the transfer of shares and would not get involved in setting prices or determining buyers. Nonetheless, international businessmen said privately at a lunch hosted by the Ambassador that their companies would close their Zimbabwean branches rather than turn over management of their operations and brand. White Zimbabwean business people fear that the Bill could devastate their remaining assets that are held as companies. The Bill still has to be enacted by statutory instrument.

18. Gold Support Price Reviewed Upward... The Reserve Bank of Zimbabwe increased the gold support price from Z\$100 million per gram to Z\$700 million per gram effective March 1, 2008. According to a public notice issued in The Herald of March 12, 2008, the upward review is designed to improve the operational viability of gold producers. The new price translates into an increase per ounce from US\$71 to US\$497, still a far cry from the world gold price of close to US\$1,000/ounce. With inflation around 300,000%, we expect the sevenfold increase to erode quickly in US dollar terms.

19. Two CEO's Arrested For Violating Price Controls... The chief executive officer of Blue Ribbon Foods was arrested early this week on allegations of flouting the National Incomes and Pricing Commission Act by overcharging for flour. According to the allegations, Blue Ribbon Foods sold flour to another company at Z\$2 billion to Z\$5 billion per ton when the controlled price for the commodity at the time was Z\$600 million per ton. The arrest came on the heels of the arrest last week of the chief executive officer of National Foods on charges of breaching the same Act. The CEO of a

third major food company told the Ambassador this week, "We're all guilty; it's just a question of who they want to come after." The controlling interests behind the first two food companies are widely regarded to be in the Mujuru camp.

¶10. Two-Tier Pricing For Hotel Accommodation... The National Incomes and Pricing Commission (NIPC) has come up with a two-tier pricing structure under which civil servants (but not parastatal employees), will pay just under half the rate paid by other guests for accommodation at Zimbabwe's hotels and lodges. According to the chairman of the NIPC, the two-tier pricing structure was proposed by the industry. Although the NIPC believes the new system will clear some of the confusion bedeviling the tourism industry, it is likely to encourage cheating as guests seek to secure favorable room rates.

¶11. Two More Sets Of Weak Corporate Results, And One Winner... Notwithstanding strong demand for the company's products, African Distillers Limited turned in subdued results to December 2007, due to shortages of bottles, other raw materials, and foreign exchange. Moreover, power outages, price controls, and coal and fuel shortages resulted in revenues rising by a paltry 58,175 percent in 2007.

Border Timbers Limited recorded worse results, with turnover growth of only 28,800% for the six months to December 2007 largely due to operational problems arising from severe disruption of electricity supplies, fires that destroyed 540 hectares of forest, and labor

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shortages. Revenue growth was well below the rate of inflation.

On the other hand, RBZ quasi-fiscal spending on agricultural implements and firm export sales drove Zimplow's earnings up a massive 368,784% in the six months to December 2007. CEO Tony Rowland told analysts that total volumes were up 56%; local volume soared 75% while exports were 38% higher and accounted for 56% of total volumes but only 49% of turnover as a result of the misaligned exchange rate.

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